

## Message Text

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PAGE 01 MTN GE 03742 01 OF 02 131955Z

ACTION STR-04

INFO OCT-01 IO-13 ISO-00 STRE-00 AF-10 ARA-06 EA-07

EUR-12 NEA-10 CEA-01 CIAE-00 COME-00 DODE-00

EB-07 FRB-03 H-01 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-01 EPG-02 AID-05 SS-15 ITC-01

TRSE-00 PRS-01 SP-02 OMB-01 FEA-01 AGR-05 OIC-02

XMB-02 NSCE-00 SSO-00 USIE-00 INRE-00 /137 W

-----132027Z 108615 /72

O 131841Z MAY 77

FM USDEL MTN GENEVA

TO SECSTATE WASHDC IMMEDIATE 2460

LIMITED OFFICIAL USE SECTION 1 OF 2 MTN GENEVA 3742

ACTION STR

E.O. 11652: NA

TAGS: MTN ETRD GATT

SUBJECT: POST-SUMMIT MTN FOLLOW-UP: TARIFFS STRATEGY

1. SUMMARY. U.S. DEL RECOMMENDS UNITED STATES FOLLOW-UP AGREEMENT ON MTN AT DOWNING STREET SUMMIT BY INITIATING DETAILED BILATERAL NEGOTIATIONS WITH MAJOR TRADING PARTNERS AIMED AT ACHIEVING A CONSENSUS ON A TARIFF NEGOTIATING PLAN BY SEPTEMBER. END SUMMARY.

2. IN ADDITION TO AGRICULTURE AND SUBSIDIES/CVD -- TWO KEY ISSUES THAT MUST BE UNBLOCKED IF THE MTN IS TO GET OFF THE GROUND -- THE PROMPT ELABORATION BY THE U.S. OF A TARIFF NEGOTIATING STRATEGY IS ALMOST AS URGENT. THE HYPOTHETICAL TIME SEQUENCE BAR GRAPHS WE GAVE TO STRAUSS AND WOLFF DURING THEIR VISIT HERE APRIL 20-21 WERE DESIGNED NOT SO MUCH WITH IDEA OF INDICATING PRECISE LENGTH OF TIME EACH STEP IN THE PROCESS WILL TAKE, BUT RATHER TO SHOW THE INTERRELATIONSHIP BETWEEN WASHINGTON DECISIONS

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PAGE 02 MTN GE 03742 01 OF 02 131955Z

AND NEGOTIATING PROCESS HERE AND IN KEY CAPITALS AND TO UNDERLINE THE FACT THAT THE TOTAL PROCESS INTERNATIONALLY WILL BE VERY TIME-CONSUMING UNDER THE BEST OF CIRCUMSTANCES. IF WE ARE TO FULFILL SUMMIT CONSENSUS TO MOVE FORWARD ON THE MTN, WE MUST TAKE INITIATIVE IN TARIFFS AREA OR THE WHOLE MTN SCHEDULE WILL SLIP. THE TARIFFS AREA IS WIDELY INTERPRETED AS A

PACESETTER FOR THE MTN, AND THE SYMBOLIC SENSE OF PROGRESS DEPENDS, TO A SIGNIFICANT DEGREE, ON MOVEMENT IN THIS AREA.

3. WE BELIEVE THAT AN EXTENSIVE BILATERAL WITH THE EC SHOULD BE THE FIRST PRIORITY IN THIS AREA, AFTER WASHINGTON POLICY DECISIONS ON ELEMENTS OUTLINED BELOW, FOLLOWED BY BILATERALS WITH JAPAN AND CANADA. THE TIME TARGET WE RECOMMEND IS TO NEGOTIATE AGREEMENT IN THE TARIFFS GROUP BY THE END OF SEPTEMBER. IN ORDER TO MEET THIS TARGET, WE WOULD NEED TO START THESE BILATERALS IN JUNE (CERTAINLY NO LATER THAN EARLY JULY).

4. IN OUR RECOMMENDATIONS OUTLINED BELOW, WE HAVE ATTEMPTED TO DEVISE A PLAN THAT WILL PERMIT US TO GET STARTED BILATERALLY AND MULTILATERALLY BUT WHICH WILL ALLOW US AND OTHERS TO PUT OFF UNTIL SOMEWHAT LATER THE POLITICALLY SENSITIVE ISSUE OF WHAT INDIVIDUAL ITEMS WILL BE PLACED ON OFFERS AND EXCEPTIONS LISTS. OUR RECOMMENDATIONS WITH RESPECT TO THE MAIN ELEMENTS OF THIS TARIFFS STRATEGY ARE AS FOLLOW.

(A) COVERAGE -- THE ISSUE OF WHETHER OR NOT AGRICULTURE IS TO BE COVERED BY A TARIFF-CUTTING FORMULA REMAINS THE MAJOR PROBLEM BLOCKING A MEANINGFUL NEGOTIATION ON A TARIFF NEGOTIATING PLAN (TNP). WE CONTINUE TO BELIEVE THAT IN AN EARLY HIGH-LEVEL BILATERAL WITH EC, U.S. SHOULD INDICATE ITS WILLINGNESS TO BREAK PROCEDURAL LIMITED OFFICIAL USE

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PAGE 03 MTN GE 03742 01 OF 02 131955Z

LOGJAM WITH RESPECT TO AGRICULTURAL TARIFFS BY ACCEPTING "REQUEST AND OFFER" PROCEDURE FOR AGRICULTURAL TARIFFS IN RETURN FOR (I) EC ASSURANCES THAT THEY WILL NEGOTIATE ON PARTICULAR TARIFFS ON AGRICULTURAL ITEMS OF INTEREST TO THE U.S., AND (II) THAT EC OFFERS ON AGRICULTURAL TARIFFS WOULD BE TABLED AT SAME TIME AS OFFERS AND EXCEPTIONS ON INDUSTRIAL TARIFFS, THEREBY PRESERVING PARALLEL PROGRESS IN INDUSTRY AND AGRICULTURE. U.S. REQUESTS ON AGRICULTURAL ITEMS COULD BE SPELLED OUT IN BILATERAL SESSIONS DURING THE PERIOD BETWEEN AGREEMENT ON A TNP AND THE TABLING OF EXCEPTIONS. IF ACCOMMODATION WITH EC OUTLINED ABOVE IS ACHIEVED, WE COULD ALLOW AGRICULTURAL OFFERS TO BE TABLED IN AGRICULTURE GROUP SINCE THE PARALLEL TIMING OF OFFERS AND THE BILATERAL FRAMEWORK OF THE OFFER AND REQUEST PROCEDURE SHOULD ASSURE THAT NEGOTIATIONS ON AGRICULTURE AND INDUSTRY MOVE TOGETHER.

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PAGE 01 MTN GE 03742 02 OF 02 132006Z  
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NSAE-00 NSC-05 PA-01 EPG-02 AID-05 SS-15 ITC-01  
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XMB-02 NSCE-00 SSO-00 USIE-00 INRE-00 /137 W  
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LIMITED OFFICIAL USE SECTION 2 OF 2 MTN GENEVA 3742

(B) TARIFF FORMULA -- SUMMIT LANGUAGE ON TARIFF  
FORMULA OFFERS SOMETHING FOR EACH OF THREE COMPETING  
VIEWS -- HARMONIZATION TO EC AND JAPAN, DEPTH OF CUT  
TO U.S., AND ELIMINATION OF LOW DUTIES TO CANADA. WE  
SHOULD CAPITALIZE ON THIS LANGUAGE IN BILATERALS WITH  
EC, JAPAN AND CANADA BY INDICATING U.S. WILLINGNESS TO  
MOVE AWAY FROM U.S. TARIFF FORMULA PROPOSAL IF OTHERS  
ARE WILLING TO DO LIKEWISE IN ORDER TO ACHIEVE A  
CONSENSUS. WE SHOULD INDICATE THAT THE U.S. IS  
WILLING TO DO THIS IN ANY OF SEVERAL WAYS: (1) BY  
SEEKING A NEW MATHEMATICAL FORMULA ON WHICH DELS CAN  
AGREE; (2) BY SEEKING A COMPROMISE FORMULA IN TERMS OF  
ONE OF THE FORMULAS ALREADY PRESENTED; OR (3) BY  
TEMPORARILY IGNORING THE ALGEBRAIC FORMULATIONS IN  
ORDER TO DISCUSS DEPTH OF CUT BY TARIFF INTERVALS  
(E.G., 40 PERCENT REDUCTION FOR TARIFFS 0 TO 5 PERCENT;  
50 PERCENT FOR TARIFFS 5 TO 15 PERCENT, ETC). WE  
BELIEVE THAT TAKING THE THIRD APPROACH INITIALLY, THEN  
MOVING TO (1) OR (2) AS THE TRADE-OFFS BECOME CLEARER  
MAY OFFER THE BEST CHANCE OF PROGRESS ON A TARIFF-  
CUTTING FORMULA. FITTING THE CANADIANS INTO ANY  
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PAGE 02 MTN GE 03742 02 OF 02 132006Z

TARIFF FORMULA ACCEPTABLE TO THE EC AND JAPAN MAY NOT

BE POSSIBLE AND U.S. SHOULD BE PREPARED TO DISCUSS (PARTICULARLY WITH THE CANADIANS, BUT ALSO WITH THE EC AND JAPAN) A FORMULATION THAT, WHILE NOT PART OF THE ALGEBRAIC NATURE OF THE TARIFF FORMULA, WOULD BE INCLUDED IN THE TARIFF-CUTTING PLAN. THIS MIGHT TAKE THE FORM OF AGREEING TO LANGUAGE RECOGNIZING THE DESIRABILITY OF ELIMINATING TARIFFS ON LOW-DUTY ITEMS WITH CREDIT BEING GIVEN TO DCS MAKING SUCH DEDUCTIONS. CANADA'S SPECIFIC REQUESTS COULD THEN BE SPELLED OUT IN BILATERALS PRIOR TO THE TABLING OF OFFERS AND EXCEPTIONS. THE CANADIANS HAVE REPEATEDLY STATED THAT A BILATERAL U.S.-CANADIAN SOLUTION TO THEIR PROBLEM IS NOT SUFFICIENT, BUT CANADIANS MIGHT BE WILLING TO PARTICIPATE AS TARIFF FORMULA COUNTRY IF THEIR INTERESTS COULD BE TAKEN INTO ACCOUNT IN ABOVE MANNER.

(C) EXCEPTIONS PROCEDURES -- WHILE WE WANT TO AVOID A DISCUSSION OF EXCEPTIONS WHICH MIGHT HURT OUR CHANCES OF GETTING AGREEMENT ON A SUBSTANTIAL FORMULA CUT, SEVERAL FORMULA PARTICIPANTS HAVE LINKED ACCEPTANCE OF THE FORMULA TO THE RULES AND PROCEDURES FOR THE EXCEPTIONS PROCESS. THE U.S. SHOULD THEREFORE BE PREPARED TO INDICATE THE KIND OF RULES AND PROCEDURES IT WOULD FAVOR. WE BELIEVE THAT GENERAL LANGUAGE, I.E., MAXIMUM RESTRAINT TO MINIMIZE EXCEPTIONS, PLUS SOME GENERAL CRITERIA ON WHAT MIGHT BE JUSTIFIED TO APPEAR ON EXCEPTIONS LISTS, IS LIKELY TO BE MOST ACCEPTABLE TO KEY PARTICIPANTS. IN EFFECT, WE WANT TO GET A COMMITMENT TO "FAIR PLAY" IN THE EXCEPTIONS PROCESS, WHILE ESTABLISHING RULES THAT LEAVE THE DISCUSSION OF SPECIFIC EXCEPTIONS UNTIL LATER AND THAT GIVE THE U.S. SUFFICIENT FLEXIBILITY IN DESIGNING ITS EXCEPTIONS STRATEGY FOR THE HORSE-TRADING PHASE OF THE NEGOTIATIONS. IN ADDITION, WE BELIEVE PROCEDURES LIMITED OFFICIAL USE

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PAGE 03 MTN GE 03742 02 OF 02 132006Z

CALLING FOR BILATERAL DISCUSSIONS AFTER THE ACCEPTANCE OF A TNP, BUT PRIOR TO THE TABLING OF EXCEPTIONS AND OFFERS, COULD LESSON THE PERCEIVED NEED FOR A MULTILATERAL EXAMINATION OF EXCEPTIONS. WE RECOGNIZE THAT DOMESTIC PROCEDURES WITH ADVISORY GROUPS MAY INFLUENCE THE U.S. TO OPT FOR A MULTILATERAL EXAMINATION OF EXCEPTIONS, AND LDCS ARE SURE TO WANT ONE AS THEIR CHIEF MEANS OF LEVERAGE ON EXCEPTIONS. NEVERTHELESS, WE (AND WE THINK SEVERAL OTHER DELS) WOULD LIKE TO AVOID THE POTENTIAL CONFRONTATIONS OF A MULTILATERAL C AND J, PARTICULARLY ONE INCLUDING LDC PARTICIPATION. A PRETABLING PHASE OF BILATERAL DISCUSSIONS

SIONS BETWEEN DCS AND DCS-LDCS (SEE D BELOW) WHICH  
COULD BE CONTINUED INTO THE POST-TABLING PERIOD OFFERS  
A POSSIBILITY FOR CHANNELING DISCUSSIONS ON EXCEPTIONS  
INTO A BILATERAL FRAMEWORK.

(D) SPECIAL AND DIFFERENTIAL TREATMENT (S AND D) --  
WE CONTINUE TO BELIEVE THAT AN S AND D PROCEDURE  
WHICH ALLOWS EACH LDC TO REQUEST BY PRODUCT THE TYPE  
OF TREATMENT THAT IT WANTS FROM DCS WHILE ALSO ALLOWING  
EACH DC TO STATE GENERALLY THOSE TYPES OF S AND D  
THAT IT CAN OR IS WILLING TO IMPLEMENT IS THE BEST  
PROCEDURE IN THE PREVAILING ATMOSPHERE. WE SHOULD  
MAKE CLEAR TO OTHER DCS THAT ANY OF THEIR RESPONSES  
WHICH IMPINGE ON U.S. TRADE INTERESTS WILL BE TAKEN  
INTO ACCOUNT BY US IN ASSESSING RECIPROCITY. SUCH A  
PROCEDURE COULD ALSO PROVIDE FOR BILATERALS BETWEEN  
DCS AND LDCS, DURING THE PERIOD BETWEEN AGREEMENT ON  
A TNP AND THE TABLING OF EXCEPTIONS, AIMED AT  
CLARIFYING LDC REQUESTS AND PRESENTING DC REQUESTS  
TO LDCS.

(E) STAGING -- WE RECOMMEND A STANDARD STAGING OF  
TARIFF REDUCTIONS OF FIVE OR SIX YEARS WITH DEROGA-  
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PAGE 04 MTN GE 03742 02 OF 02 132006Z

TIONS FOR PARTICULAR PRODUCT OR PRODUCT CLUSTERS.

(F) BASE RATE/BASE DATE -- IN BILATERALS WITH THE  
JAPANESE, U.S.S. SHOULD SEEK ACCOMMODATION ON BASE  
RATE ISSUE IN RETURN FOR JAPANESE REDUCTION OF APPLIED  
JAPANESE TARIFFS ON PRODUCTS OF PARTICULAR U.S. EXPORT  
INTEREST ON A BASIS COMPARABLE TO TARIFF FORMULA  
REDUCTIONS.WALKER

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## Message Attributes

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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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**Copy:** SINGLE  
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**Disposition Date:** 22 May 2009  
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**Executive Order:** N/A  
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**Original Handling Restrictions:** n/a  
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**Subject:** POST-SUMMIT MTN FOLLOW-UP: TARIFFS STRATEGY  
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**To:** STATE  
**Type:** TE  
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**Review Markings:**  
Margaret P. Grafeld  
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